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SENSITIVE
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TAGS: [ECON](#) [EFIN](#) [EINV](#) [EPET](#) [ETRD](#) [CH](#) [KU](#)
SUBJECT: AMIR'S CHINA VISIT - BUILDING THE NEW SILK ROAD

REF: A. KUWAIT 452
[1](#)B. KUWAIT 438

[1](#)1. (U) This report contains business proprietary information.
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[1](#)2. (SBU) Summary: On May 12, Kuwait's Amir completed his state visit to China. Kuwaiti investors and oil executives are cautiously optimistic that his visit helped Kuwaiti investment opportunities in China, including "unsticking" the Kuwaiti-Chinese refinery joint venture and facilitating KIA's efforts to increase its investments in China. Kuwait is looking to significantly expand its oil exports to China and its government investments in "the second or third" largest economy in the world. End summary.

[1](#)3. (SBU) Kuwaiti Amir Shaykh Sabah Al-Ahmad Al-Sabah wrapped up what appears to have been a successful visit to Hong Kong and mainland China on May 12. The Kuwaitis publicly played up the visit as strengthening the economic and commercial ties between Kuwait and China. The two parties signed 5 agreements during the visit. More importantly, from the Kuwaiti perspective, however, the Amir's visit appears to have "unstuck" the Kuwaiti - Chinese joint venture to build a multi-billion dollar refinery in China and opened up more investment opportunities for the Kuwait Investment Authority. China-Kuwait bilateral trade is growing, reaching \$6.78 billion last year, and Kuwait's stated goal is to expand its oil sales to China from the current 130,000-140,000 barrels per day to 500,000 barrels per-day by 2015. (Note: By way of comparison, last year the U.S. imported an average of 210,000 barrels per day from Kuwait. End note.)

Oil Cooperation

[1](#)4. (SBU) According to the Kuwaiti press, Kuwait's Minister of Oil Sheikh Ahmad Abdullah Al-Sabah signed an agreed minute related to oil and gas cooperation with the Chairman of China's National Energy Administration. The Managing Director of International Marketing for Kuwait Petroleum Company Al-Houti told Econoff that this merely ratified an earlier agreement that was essentially a broad statement of intent to cooperate in the energy sector.

[1](#)5. (SBU) More importantly, Shaykh Ahmad also signed an agreement to construct a refinery and petrochemical complex in China. This \$9 billion joint venture is billed as the largest Sino-foreign joint venture in China. The project, scheduled to be operational by 2013, would include a refinery, designed to process 240,000-300,000 barrels per day of Kuwaiti crude, and a petrochemical processing component. Shaykh Ahmed told the press that Sinopec will own a 50% stake in the joint venture, Kuwait will own a 30% stake, Royal

Dutch Shell and Dow Chemical Company will each own 10% (see also ref b).

¶6. (SBU) This project, originally entered into in 2005, was officially held up by Chinese environmental concerns about the refinery's impact on a densely populated area in Guangdong Province. Post's contacts in the petrochemical industry have told us that the refinery's location would be changed to near the city of Zhangjiaguan. According to one industry executive, internal Chinese politics had probably played a bigger role in the decision than pure environmental concerns. The Guangdong region already has a large petrochemical industry and the Chinese authorities reportedly believed that economic development opportunities were needed elsewhere. So far, observers are cautiously optimistic that the program will move forward.

Kuwait Investment Authority -----

¶7. (SBU) KIA Managing Director Bader Al-Saad told the press that the Chinese Prime Minister had pledged to the Amir that KIA would be able to trade in the Yuan as a domestic trader, which would "give a robust boost to our investments in China," which had previously been restricted to the Hong Kong Stock Exchange. A senior KIA official confirmed to Econcouns that the story was accurate. He explained that Kuwait had been working for over a year to become a qualified foreign institutional investor in China, but that the Chinese were "very bureaucratic." He expressed his hope that the Amir's visit had indeed helped facilitate this process. Currently, he explained, KIA cannot invest in the Yuan directly, but

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needs to work through a third party and invest in dollars, increasing cost and currency risk. Given the size of China's economy, he noted, KIA is "significantly underweight" in the country and is interested in increasing its investments in China. As an aside, he also noted that KIA remained significantly overweight in the U.S. based on its share of world GDP. He stressed that KIA was not planning to cut its holdings in the U.S. but that as new funds came in, it wanted to allocate more of them to underweight markets.

Kuwaiti Assistance to China Continues -----

¶8. (U) The Managing Director of The Kuwait Fund for Arab Economic Development (Kuwait's development agency) signed a loan agreement with China's Vice Finance Minister to provide a KD 6.8 million (\$23.26 million) loan agreement to help finance the Lake Bosten River Basin Environment Protection and Development Project in the Muslim-majority Xinjiang region. The Kuwait Fund will cover about 24% of the cost of the project in a 25-year loan. This will bring the total number of Kuwait Fund loans to China to 33 since 1982, with a total loan value of \$831.6 million.

Other agreements -----

¶9. (U) The Kuwaitis and Chinese also signed a MOU on infrastructure cooperation for highways and water channels, a cooperation agreement on higher education, and a sports cooperation agreement.

Comment -----

¶10. (SBU) This is the Amir's second visit to China, and his first as Amir. He visited China in 2004 as Prime Minister. Although Kuwait and China have had diplomatic ties since 1971 and the public statements included the obligatory statements on political cooperation, this visit was clearly focused on economic issues. Kuwaiti investors and businesspeople are increasingly focusing on the growth potential in China -- and

the rest of Asia. For their part, the Chinese are likely to want to strengthen their ties to an important energy supplier. Should the refinery project succeed, it will cement increasing Sino-Kuwaiti energy ties. Kuwaiti oil executives have already complained that Kuwait's tender system pressures them to "buy (lower cost) Chinese" products. As Kuwait increasingly looks to China for its oil exports and investment opportunities, other business connections are likely to follow, which could present challenges to U.S. businesses. End Comment.

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